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# PLANNING MACHINERY IN AFGHANISTAN

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# PLANNING MACHINERY IN AFGHANISTAN

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## ECONOMIC AND SOCIAL SETTING

1. Afghanistan is a landlocked country with an area of 650,000 sq. km., lying astride the Hindu Kush mountain range. The mountainous backbone of the country is surrounded by alluvial plains sloping away from the foot of the mountains. Its climate is dry with an average annual precipitation of 300 mm. The population of the country, which is predominantly rural, is presently estimated at 14 million, including two million nomads. Agriculture and animal husbandry together comprise the largest single occupation, accounting for about 80 per cent of total output and employment of the country. Although small and cottage industry holds a predominant position in the country's industrial economy, a few large manufacturing establishments have recently been established.

2. Official estimates of national income are not available; however, according to one unofficial estimate (purely of a tentative nature) per capita income is about Afs. 2,000.

3. Although Afghanistan is not faced with an explosive population problem, as a result of the extension of medical facilities of preventive and curative types, and improved living standards, population of the country is growing at a faster rate than before.

4. Foreign trade is very important to the country's economy; total external trade of the country in 1961-62 amounted to Afs. 4.4 billion. The principal exports are fresh and dry fruits, karakul skins, carpets, cotton and wool; the principal imports being consumer goods, particularly textiles, machinery and equipment.

## ADVENT OF PLANNING

5. Economic development in Afghanistan actually started in the mid twenties, but conscious development dates back to 1929 when concerted attempts were made to open up communications, develop industry and introduce educational and social reforms. Subsequently, there was a proposal to draw up a seven-year program of development, but the Second World War forced the country to postpone development plans. At the end of the war, irrigation and power projects in the Helmand Valley were undertaken for the development of agriculture and industry. These efforts, however, were not integrated into a national plan. Rather this was limited development planning for one region.

6. Earlier attempts at development were deficient in yet another respect. There existed no clear-cut policy regarding the respective roles of private and public sectors. It was found that private enterprise had neither the experience nor the resources for undertaking large scale investment. Also, as has been the experience in other underdeveloped countries, its channels of investment did not always correspond to the genuine needs and requirements of the country. After taking into account all the issues involved, the Government decided upon a policy of 'guided economy' which was designed to utilise the potentialities of both public and private sectors and to divert private investment into the most advantageous channels. Elucidation of this basic policy is to be found in the following declaration by the Prime Minister in a speech delivered early in 1954:

> "My Government's economic policy is based on the principle that both Government and private enterprises should function for the benefit of the country and general welfare of the people. In the future the full economic resources of the country, private and public, willfunction in such a manner as to provide maximum benefit to all sections of the population. Therefore, for the coordination of the country's economic activities, it is necessary that the Government, which represents all sections of the population, guide and regulate such activities."

Subsequent planning has followed this basic policy.

## THE FIRST FIVE YEAR PLAN

### Objectives and Achievements

7. The First Five Year Plan, which commenced in September, 1956, and ended in September, 1961, is an important landmark in the annals of the country. It took a fairly comprehensive view of the economy and indicated the general framework for future development. Its primary objective was the development and exploitation of the country's natural resources, in order to bring about increased production and higher living standards.

8. The Plan accorded high priority to agricultural development. In order to meet the basic requirements of increased food production for a growing population and greater supplies of raw materials for domestic industry and for export abroad, the Plan provided for extension of arable area as well as for raising yields. In view of known statistical deficiencies, except in the case of cotton, karakul and wool, no production targets were laid down; but the potentialities for growth were duly taken into account.

9. The industrial program was intended to exploit the country's mineral and power resources as well as to expand consumer industry in order to raise living standards, save foreign exchange, and avoid inflation. Development of basic industry and the processing of domestic raw materials were the other highlights of the industrial program.

10. Great emphasis was laid on the development of transport and communications. Indeed, as a result of experience gained in the course of implementing the Plan, transport came to be accorded the highest priority. Road and air transport

alone being feasible for the country, the Plan provided for the construction of highways for opening up the economically important areas and for linking them with one another and with the borders. At the same time the transport fleet was to be enlarged, and a number of new automobile workshops were to be established to provide repair and service facilities. Civil aviation was to be developed to provide internal and external links.

11. The educational program was intended to broaden the general education base and extend facilities for technical and vocational instruction and training. Provision was also made for the improvement and expansion of higher education.

12. Suitable measures were also proposed for appropriate and parallel developments in other fields.

13. In the course of implementing the Plan, the country experienced shortages of internal financial and material resources and technical skills. There was also lack of sufficient experience in planning. However, despite these difficulties, the country succeeded in mobilising resources, will and energy of the people and taking effective steps for economic and social progress.

14. Despite changes and alterations which the Plan witnessed in the course of its implementation, it succeeded in achieving its major targets. Installed capacity of electric stations increased almost three times, and electric energy production almost five times; coal output 2.5 times.. Cement, woolens , artificial silk and vegetable oil were produced for the first time. Extensive prospecting for gas and oil was undertaken which resulted in the discovery of considerable deposits of gas. Construction of about 2,000 kms. of modern highways, with concrete and asphalt cover, was mostly completed.

15. Under agriculture, considerable work was done in the field of irrigation, and particular emphasis was given to plant and animal protection. Considerable progress was made in the case of social sciences, particularly education. The number of primary schools doubled; while enrollment of secondary and university education more than doubled. The number of medical personnal increased almost two times; the number of hospitals and beds, polyclinics and medical laboratories also recorded large increases.

Formulation, Programming and Financing

16. The formulation of the First Five Year Plan posed important issues of planning methodology and techniques. In the absence of data on population, national income, saving and investment, etc., it was obvious that techniques which were applicable to more developed environment could not possibly be used in Afghanistan. No effort was therefore made to determine the size of total investment on the basis of a given capital/output ratio, or input-output analysis. It was also not possible to indicate the desirable target of increase of national income and work out the size of the total investment program accordingly. The only approach feasible which suggested itself was to appraise the needs and requirements of the country in the economic and social fields and, in their light, lay down broad objectives and targets together with guidelines for individual departments. The method of partial planning according to which various government agencies formulate

their own programs and coordination is achieved through the national budget, was found more appropriate.

17. The procedure and processes of the formulation of the First Plan were as follows:

The Ministry of National Economy in cooperation with the Ministry of Finance and the Central Bank was instructed to make arrangements for preparing a comprehensive economic plan in accordance with the general policy statement already noted. A committee was formed comprising representatives of various Government agencies. Ministries and other operating agencies were asked to submit development proposals to the coordinating committee. The tax and customs duty schedules were revised, and changes were worked out with a view to increasing public revenue in such a way as to have the minimum of undesirable economic effects. On the basis of these revised schedules, estimates of public revenue over the five year period were made. After projecting ordinary budget expenditures, the amount available for development was indicated. Projections were also made of foreign trade and exchange earnings, as well as of aid promised or anticipated from external sources.

18. The means were then at hand for bringing the programs of the different agencies within the limits of anticipated financial resources. It was here that difficulties arose. Apart from statistical deficiencies already noted, there was the lack of personnel qualified to make engineering studies to determine costs and economic benefits of proposed projects. Much the same was true with respect to surveys of natural resources such as water, minerals, gas and oil. Such pre-investment studies are time consuming, and the Government felt a strong urge to get started with development.

19. During the first year of the Plan, the Ministry of Planning was created to give more emphasis and impetus to the making of plans and their implementation. The Prime Minister retained the portfolio of Minister of Planning. The Ministry became responsible for preparing the annual and quarterly development budgets in consultation with the other Ministries concerned and subject to final approval by the Cabinet and the Parliament.

20. During the first plan period there were various changes in the Plan. New grants and loans from friendly nations permitted some expansion. On the other hand, construction work on certain projects lagged behind schedule, and costs soared well above estimates. Experience with the first large irrigation project which was undertaken prior to the first plan period demonstrated that it takes a long time and heavy capital investment to reach the full agricultural potential of an irrigated area after storage dams have been constructed and canals have delivered water to each farm. If some of the land which was counted on to contribute toward the repayment of capital investment proves submarginal, then the remaining productive land has a larger burden to bear. In the light of this experience it was decided to postpone some of the projects which were not likely to give early results and, instead, to concentrate on works which promised early benefits.

21. In the light of experience gained, certain changes in the order of priorities became necessary. It was discovered that lack of a well developed transport system was holding up progress in other sectors too. It was, therefore, decided to

accord the highest priority to the construction of roads. Similarly, it was proved that the development of agriculture was in part dependent upon industry for equipment and supplies needed in production, as well as for the processing of agricultural products. Furthermore, it was realised that a balanced development of the economy was dependent upon exploitation of the basic energy resources, especially hydroelectric power, gas, oil and coal. The industrial sector was therefore given appropriate consideration.

22. In financial terms expenditures on development exceeded what was planned. The Plan envisaged a total outlay of 14 billion Afghanis; five billion under 'ordinary' and nine billion under 'development' budget. Actual expenditure during the plan period, however, amounted to 16.6 billion Afghanis, including 10.3 billion incurred on development. Of the latter sum about 6.7 billion was from foreign loans and grants. The internal revenue of the State, which amounted to 1.3 billion Afghanis on the eve of the Plan, rose to 2.3 billion Afghanis by the end of its fifth year.

23. To reduce the cost of the projects, the military conscript labor corps of the country was put to work on construction (which had the training aspect also in view). Simultaneously, as the base for further taxation was limited, greater use was made of the State Trading Organisation of the country, namely, Government Monopoly. The scope of business which the Monopoly had the authority to deal with was enlarged, as was also the margin between its buying and selling prices.

24. An interesting feature of the financing of the Plan was the import of consumer goods as part of foreign assistance. This measure had two purposes: to fight possible inflationary pressure and find additional Afghani resources for the Plan.

25. Public revenue from domestic sources exceeded projections, but ordinary budget expenditures also exceeded estimates by roughly the same amount, so that the volume of domestic financial resources channelled into investment by the Government closely approximated what had been originally planned. Although there was some price inflation during the first two years, this was successfully brought under control, and the free exchange rate for the currency was lower at the end of the period than at the beginning.

26. There were several problems in the field of budgeting during the course of the first five year Plan. The budget system in effect during the first two or three years of this period was deficient in several respects. There were no very clear definitions of expenditure objects or receipt sources, which made comparisons from one year to the next and from estimates to actuals very difficult. And the practice of requiring the prior approval of the Accounting Investigation Department led to considerable delays in budget execution, and hampered the progress of development projects particularly in outlying areas of the country.

27. The Budget and Accounting Act of 1338 (1959-60) was designed to remedy these and other defects then apparent. Nevertheless, the accounting and budgeting reforms did not eliminate all problems in this field. One of the recurring problems during the period of the First Five Year Plan which has not been entirely resolved even now - is the problem of integrating the planning process with the annual operating budget. There are several ambiguities about the coverage of the development plan in terms of governmental activities as contrasted with the coverage of the operating budget.

28. The failure to achieve complete integration of budgeting and planning has meant a serious lack of data respecting development projects. While the development activities are planned on a project-by-project basis, and the Ministry of Planning tries to follow the execution of the plan on a project-by-project basis, annual appropriations to the agencies and the agencies' own records of expenditures are maintained according to objects of expenditure rather than projects or program. We are now examining the possibility of shifting over the development budget to a project-by-project basis rather than an objects of expenditure basis.

29. The importance of manpower planning came to be realised in the course of implementation of the Plan. It became apparent that the educational plan should be reoriented and, apart from expansion, should integrate the different programs and correlate them with the manpower requirements of the Plan as a whole and its component projects. In order to satisfy the growing requirement of personnel to the extent possible, on-the-job training was introduced.

## THE SECOND FIVE YEAR PLAN

30. The Second Five Year Plan which began in March, 1962, has the following main objectives:

(a) Raising agricultural productivity with a view to procuring ample food supply for the country's growing population and providing adequate raw materials for industry and for export abroad. (In this connection the Plan lays particular emphasis on increasing the production of cotton).

(b) Establishment of basic industry (e.g., petroleum, gas, chemicals, and metallurgy) and expansion of consumer industry and power.

(c) Expansion of social services, particularly education (emphasis is laid on the training of personnel).

The plan is also expected to further strengthen the country's economic infrastructure, particularly transport. In this connection it envisages the completion of the network of roads and communications started during the First Plan, by the middle of its third year.

31. By the time deliberations on the Second Five Year Plan started certain improvements had taken place in the compilation of statistical data. Some data was now available on money and banking, prices, foreign trade and balance of payments, production of large industrial establishments and factory employment. Also, the Ministry of Planning was now in a better position to coordinate planning. While the Ministries were still responsible for the drawing up of their respective plans, the Ministry of Planning cooperated with them by deputing its own experts for assisting them in their deliberations. The Ministry also suggested broad guidelines for the preparation of the Plan. These related to objectives, prerequisites and priorities. Creation of employment opportunities was a notable feature of the suggested objectives. Highest priority was to be given to projects carried over from the First Plan while projects which would result in the earning or saving of foreign exchange or which, on balance, were more productive, were also given special consideration. The task of coordinating the sectoral plans fell to the Ministry of Planning.

## MACHINERY FOR PLANNING

32. The character of planning machinery in Afghanistan is determined by its unitary form of government. The Ministry of Planning is charged with the responsibility of coordinating, reviewing, and modifying the different sectoral plans of development; determining priorities; and advising government departments in all matters pertaining to economic development.

33. The Ministry is headed by a Minister (since its very inception the Prime Minister has held this portfolio) and assisted by a Deputy Minister. It comprises four main departments - Planning, Research and Statistics, Foreign Liaison and Administration. Departments of Planning and Research and Statistics have each a President. The Planning Department is the coordinating unit, comprising sections of coordination, manpower, agriculture, mining and industry (including power), trade and commerce and money and banking. The main duties of the Research and Statistics Department are the compilation of development statistics and initiation of research studies on different aspects of the economy. The Department comprises units dealing with statistics, research and publication. One of the important contributions of this Department is the annual Surveys of Progress which detail the achievements of planning in different sectors and contain useful statistical data of the economy of the country. The Foreign Liaison Department is responsible for coordination of all activities relating to foreign economic and technical assistance received by the country.

34. The Ministry of Planning is essentially a staff agency, its functions being advisory and coordinating rather than executive. As a result it is able to devote its entire energy and attention to problems of development and assess them with detachment and a perspective broader than that of an administrative and executive agency. The Ministry also performs certain supervisory functions in regard to implementation. Its key position in the planning of the country cannot possibly be over-emphasized.

35. The Planning Ministry is assisted by a number of foreign, including U.N., experts. However, it is seriously understaffed, particularly for the duties and responsibilities that it has been assigned. Apart from an absolute shortage of staff in all its existing departments and units, it has no experts of its own specialising in the various physical sciences. Consequently, it has to lean rather heavily on engineers attached to the administrative Ministries and on their technical advice.

36. Yet another handicap which the Ministry suffers from is the absence of a proper evaluation machinery either as an independent body or as a department of its own. It has to depend on reports of the Ministries on the state of progress of the Plan. A convention has been established that quarterly sanctions of development expenditure will issue only with the consent of the Ministry of Planning on the basis of quarterly reports of progress of a Ministry. Sometimes these reports are not submitted in time or are not informative enough, rendering the task of the Ministry very difficult.

37. With the advent of planning practically all the Ministries dealing with development have come to establish planning units of their own. These units usually coordinate the programs of different departments of a Ministry. The Ministry of Planning keeps a close liaison with these units.

38. Frequent references have been made in this paper to the handicaps arising from lack of reliable information. Progress is being made through the efforts of the various Ministries, many of which have established statistics and research departments. The Ministry of Commerce, for example, has made rapid progress in improving the accuracy of recording foreign trade statistics, including both quantities and values. The publication of such figures has been greatly accelerated. Similarly the Central Bank has been improving statistics on the money supply, balance of payments, public debt position and related subjects. The Manpower Division of the Ministry of Planning has been collecting useful data on manpower and employment. Other similar examples could be cited for other Ministries.

39. The Ministry of Planning has a coordinating function with respect to information relevant to planning. It prepares various types of forms for the use of the other Ministries. For example, in submitting development project proposals there are forms which cover not only costs, time schedules and expected results of the projects, but also their requirements for materials, labor of various categories and power. This is intended to permit an evaluation of requirements for these project inputs in relation to the overall supply. Other forms provide for reporting progress in construction and in the use of inputs as well as expenditures. This is intended to provide a basis for evaluation of progress and for making adjustments where necessary.

## FOREIGN ASSISTANCE

40. With its existing low levels of income and consumption, it is not possible for Afghanistan to mobilise internal savings on a scale adequate for sustained economic development. The country has therefore to rely on external savings to undertake large-scale investment in the public and private sectors. Apart from inadequacy of internal savings, due to the present shortages of materials, techniques and skills, development in Afghanistan involves a higher proportion of foreign exchange. Foreign assistance is needed not only to import capital goods, but also to supply the balance of foreign currency requirements which cannot be met by the export earnings.

41. As in the past, Afghanistan will welcome all aids - economic as well as technical — from friendly countries and from international organizations such as the United Nations and the World Bank. To be effective, such assistance has to be coordinated with the national plans of development particularly in respect to its magnitude, certainty of availability, and timeliness. A large part of investment in Afghanistan in the coming years will have to be devoted to infrastructure, which is not only capital-intensive but also does not bring any direct dividends, at least in the short run.

42. The Ministry of Planning in cooperation with the Ministry of Finance coordinates work relating to foreign assistance. Priorities are determined in the light of the objectives of the Plan and the urgency and profitability of individual projects. This applies to both economic and technical assistance. It has been the experience so far that a good bit of the utility of assistance received is lost due to protracted negotiations and short-term nature of assistance received.

43. To conclude, five years is too short a period to accomplish all the tasks of a national development, or to perfect the techniques of programming and implementation. A realistic evaluation of the efforts made during the First Plan will show that despite many handicaps, certain essential prerequisites have been created for future progress. So far as techniques of planning are concerned, the authorities are conscious of the shortcomings and intend to profit from the experience of the more developed countries. It is hoped that the forthcoming deliberations will help developing countries to increase their understanding of planning processes.